Kavet, Rockler & Associates, LLC
985 Grandview Road
Williamstown, Vermont 05679-9003 U.S.A.
Telephone: 802-433-1360
Fax: 866-433-1360
Cellular: 802-433-1111
E-Mail: tek@kavet.net
Website: www.kavetrockler.com

Memorandum

To: Steve Klein, Chief Fiscal Officer, Legislative Joint Fiscal Office

From: Tom Kavet

CC: Joint Fiscal Committee

Date: November 9, 2020

Re: Economic Priorities: Remaining CARES Act Allocation Issues

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Per your request, I am writing in response to legislative inquiries regarding remaining CARES Act allocations and, included among these, issues raised in a JFO memorandum of November 8 regarding expenditure of $75M in additional Economic Recovery Grants. I have also attached an earlier memo of August 26 regarding expenditure priorities that may provide background information and discussion that may still be germane.

Vermont has received an extraordinary inflow of federal pandemic-related transfer payments, estimated to total a phenomenal $4.8 billion through October 29th. As noted previously, Vermont has received among the highest per capita transfer payments in the nation, at $7,618, only exceeded by the District of Columbia at $8,799.

Federal Spending in Vermont for Major Pandemic-Related Programs	
Total:	**$4.8 Billion**
Economic Impact Payments:	$575 Million
Federal Pandemic Unemployment Compensation :	$598 Million
Pandemic Emergency Unemployment Compensation :	$17 Million
Pandemic Unemployment Assistance :	$91 Million
Paycheck Protection Program:	$1201 Million
Provider Relief Fund:	$197 Million
Coronavirus Relief Fund:	$1250 Million
HHS COVID-19 Appropriations:	$104 Million
FEMA Disaster Relief Fund:	$101 Million
Educational Support:	$36 Million
Infrastructure Grants:	$21 Million
Emergency Injury Disaster Loan Advances:	$36 Million
Emergency Injury Disaster Loans:	$344 Million
Medicare Accelerated and Advance Payments:	$185 Million
Total Per Capita:	**$7,618**
Source: Peter G. Peterson Foundation, through October 29, 2020	

The myriad constraints on the uses of these funds and the desire for their rapid disbursement, however, has reduced their beneficial impact and resulted in considerable unnecessary expenditure. The tradeoff between deployment speed and accurate targeting of need may have been unavoidable, but with the remaining funds, it would be optimal to target them, to the greatest extent possible, to those individuals and businesses that now and in the near future are likely to experience the greatest need.

The top priority for any remaining discretionary State funds should be, first and foremost, to insure provision of essential needs such as food, housing and medical care to all. This includes robust funding of "safety net" programs such as food banks, emergency shelters, rental assistance, mortgage assistance, property tax assistance, free and widespread access to personal protective equipment, and transfer payments to the many thousands of Vermonters who have lost their jobs and are still unemployed, including supplemental and extended unemployment insurance benefits. Although some of these have been funded in whole or part previously, these needs should come first and have sufficient capacity to withstand a second wave of the pandemic with minimal further federal assistance, and possible longer-term delays in the widespread availability of a vaccine. Although funding for some of these programs may seem adequate now, the path of this pandemic is still highly uncertain and it would be hard to have excessive capacity in many of these areas.

Other highly beneficial areas of potential expenditure are outlined in the attached August memo and include measures to support broadband access, childcare, K-12 functionality, highly impacted business sectors, including non-profits, that may still be underserved, private and public higher education, transitional support to workers for job retraining, new business incubation and technology assistance to businesses seeking to leverage internet applications for marketing and sales.

Evaluating the relative "needs" arising from the pandemic between all of the above segments of our society and economy is exceedingly difficult. The imperative to spend or lose fixed federal payments within a short period of time adds to this difficulty, since future needs could be substantial and are unknown. This argues for maximizing future capacity among the most essential programs to the greatest extent possible.

With respect to the issue of a proposed additional $75M expenditure for Economic Recovery Grants, I concur with the JFO assessment that,

> *"A key concern is the current ACCD methodology that defines Net Unmet Need as the amount required to provide the same level of revenue as in 2019 less any state or federal grants received this year in response to the COVID-19 pandemic. That measure of need does not reflect any reduction in variable costs stemming from the current recession, suggesting that in many cases the actual unmet need could be substantially lower. We acknowledge that expediency is a key issue in getting the grants to the recipients, but alternative measures of need might better target struggling businesses…* ***This methodology and its focus on revenue loss make it difficult to strategically target state dollars where they are needed most within the business community."***[1]

[1] See pages 1 and 3 of the JFO memo to the Joint Fiscal Committee from Graham Campbell and Joyce Manchester entitled "Information Regarding Economic Recovery Grants," dated November 8, 2020

The fundamental purpose of the Economic Recovery Grants is to maintain business viability until such time as the pandemic recedes and businesses can resume sustainable operations. While revenue reductions certainly generate business stress, they are not determinative of the likelihood of business survival. The metric most directly affecting business survival is profitability. Only when profitability drops below zero, will a business will be vulnerable to imminent closure. These are the businesses that are most in need and deserving of support. A large revenue decline will not necessarily result in negative profitability (loss) if variable costs go down at the same time. The current programs that focus solely on revenue loss will tend to overstate the support needed to avoid closure and deprive those firms most in need of receiving adequate support.

Among other options, the JFO memo suggests consideration of program need definition and grant distribution

…based on profit and loss statements for March through September 2020 for each business...

It is my understanding that profit and loss statements are already on file with approximately 1500 current ACCD applicants and could be requested from the approximately 1000 Tax applicants for the program. P&L statements are a standard reporting metric for almost any business and can be compiled with relatively little administrative burden. A few income and expense categories for the most recent March through September (or later, if available) period and the same for 2019 would be all that is needed to assess profitability and a more focused measure of business need. Other federal and state transfer payments would show up as income in 2020, owner salaries in both periods would be excluded so as to avoid potential gaming of profitability, and these statements would provide a clear picture of business viability. This approach has been used by the Agency of Human Services for recovery grants to healthcare providers and is not excessively complex to administer.

ACCD staff has performed extraordinary and exemplary work in constructing and administering many pandemic-related programs stemming from the CARES Act. They should not be expected to shoulder additional administrative burdens with program changes such as this. Instead, funding should be provided for professional CPAs to be retained to process the P&L statements for grant awards, with priority given to those businesses showing losses in 2020. 25 CPAs could process 100 applications each for less than $1M and probably less than $500K in a short period of time.

Other measures that would increase the likelihood of Economic Recovery Grants reaching only those most in need would be to make the grants as publicly transparent as possible. Recipient names should be publicly available, even if individual award amounts are not. Letters attesting to the need for grant funding could also be required, stating that without the grant, the business would be at risk of closing within 6 months.

The State has neither the capacity nor administrative ability to fully address every possible problem associated with pandemic-related business stress. Keeping all companies “whole” throughout the pandemic is impossible and many companies will close regardless of public support. These funds will help some firms survive and transition, but cannot be expected to neutralize all impacts. By better focusing the expenditure of remaining federal funds, however, we can stretch their efficacy and maximize beneficial economic impacts.

Vermont Nonfarm Wage and Salary Employment	**Percent Change vs. Year-Ago (Not Seasonally Adjusted)**								
Industry Sector	**Jan 2020**	**Feb 2020**	**Mar 2020**	**Apr 2020**	**May 2020**	**June 2020**	**July 2020**	**Aug 2020**	**Sept 2020**
Total Nonfarm	-0.4	-0.4	-2.6	-22.4	-16.9	-13.4	-12.2	-10.7	-9.6
Mining and Logging	0.0	0.0	-12.5	-25.0	0.0	0.0	-12.5	-12.5	-12.5
Construction	-7.3	-6.7	-8.1	-50.6	-34.0	-29.4	-30.9	-30.3	-27.0
Manufacturing	-1.4	-1.0	-2.0	-26.8	-10.4	-12.0	-11.2	-11.6	-9.0
Trade, Transportation, and Utilities	-1.7	-0.9	-2.8	-21.0	-13.7	-7.9	-7.0	-6.5	-4.3
Information	0.0	0.0	0.0	-4.8	-7.0	-9.3	-4.7	-4.7	-4.8
Financial Activities	-5.7	-2.5	-3.3	-8.9	-8.9	-8.9	-8.9	-10.6	-7.4
Professional & Business Services	1.4	1.1	-0.7	-14.5	-10.1	-8.6	-6.8	-4.4	-4.4
Education & Health Services	-0.2	-1.0	-4.0	-15.4	-12.7	-5.6	-5.4	-4.1	-5.4
Leisure & Hospitality	1.3	0.5	-6.4	-60.5	-52.7	-48.7	-45.5	-42.2	-35.3
Other Services	-1.0	-1.0	-2.0	-18.4	-19.4	-11.7	-12.6	-6.8	-7.8
Government	2.0	1.9	2.1	-5.7	-5.7	-4.8	-2.4	-0.3	-2.5

Source: U.S. Bureau of Labor Statistics (September data are preliminary)

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Memorandum

To: Steve Klein, Chief Fiscal Officer, Legislative Joint Fiscal Office

From: Tom Kavet

CC: House Committee on Commerce and Economic Development

Date: August 26, 2020

Re: Economic Priorities: CARES Act Allocation Inquiry

Per your request, I am writing in response to two inquiries from the House Committee on Commerce and Economic Development regarding the optimal use of remaining CARES Act funding. Although the time allotted for analytic work on this issue is nowhere close to adequate given the complexity and magnitude of the expenditures involved, I will offer a few general observations and if further inquiry is desired, am available to perform a more rigorous review with specific program recommendations and costs, if legislative timing permits.

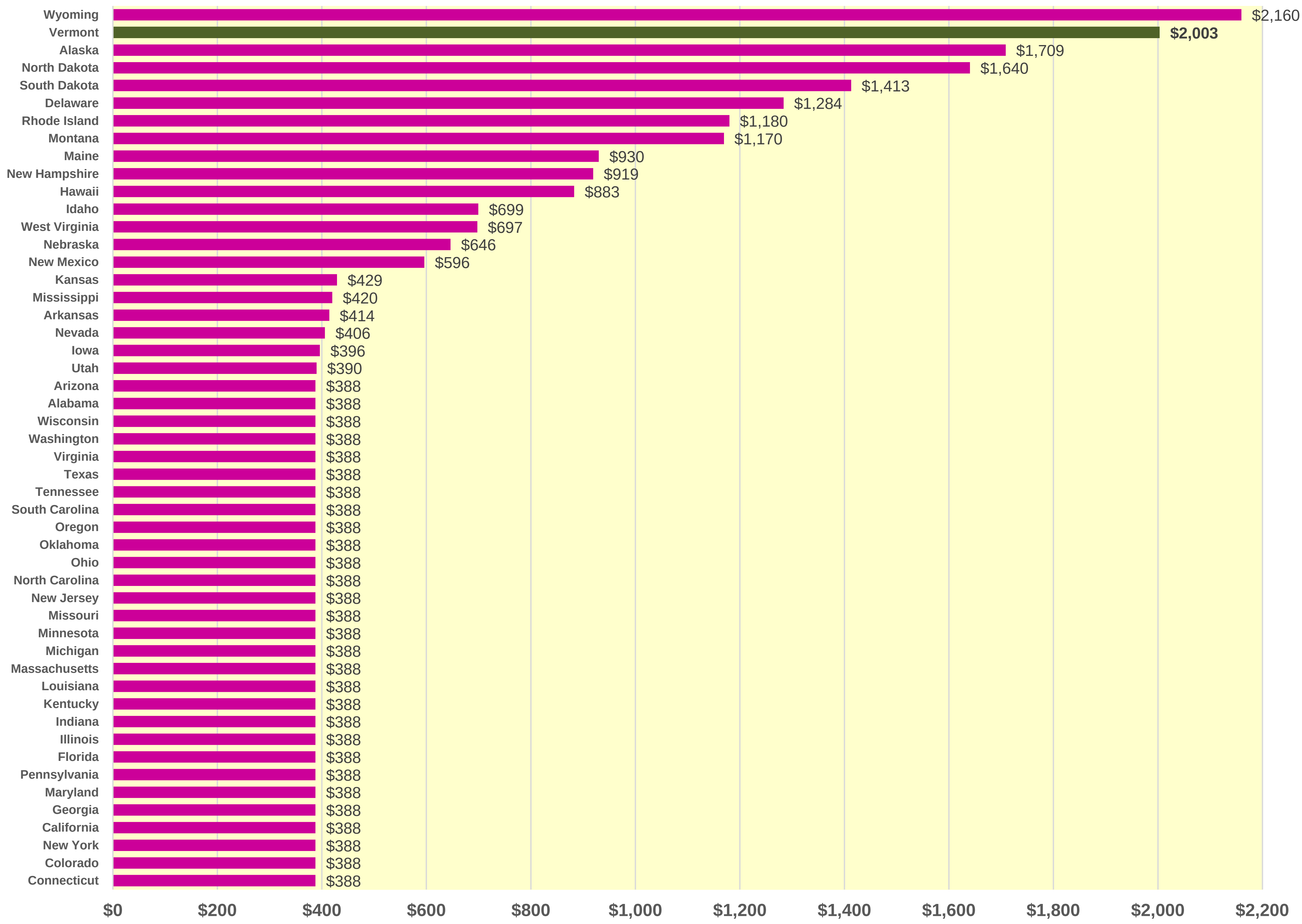
The CARES Act comes with a stringent and ever-changing set of limitations, including a year-end cutoff date, for use of the vast federal funding provided to Vermont. As noted previously, and in the graphs on the following two pages, Vermont has received more per capita federal COVID-related funding than most other states. CARES Act restrictions impinge upon the use of the funds for maximum beneficial State economic impact, however, almost all contemplated uses will have significant positive economic effects.

In general, the criteria for optimal disbursements of the remaining CARES Act funds include both economic and equity considerations. Ideally, resources should be targeted to those most in need and, first and foremost, insure provision of essential needs such as food, housing and medical care for all. In the interest of getting funding out quickly, and with inadequate extant institutional mechanisms to do so, prior federal COVID disbursements were not well-targeted. This resulted in not only waste, but shortfalls in areas of real need and windfalls elsewhere that have fueled a boom in new car and truck sales, housing and stock prices. Reflecting this, personal saving rates did not rise for those most in need, but the aggregate national rate soared from 12.6% in March to 32.2% in April and to 23.2% in May.

Targeted essential needs funding includes things such as: Food banks, emergency shelters, rental assistance, mortgage assistance, property tax assistance, and transfer payments to the 30,000 Vermonters who have lost their jobs and are still unemployed, including supplemental and extended unemployment insurance benefits. Although some of these have been funded in whole or part previously, these needs should come first and have sufficient capacity to withstand a second wave of the pandemic if possible, when CARES Act funding or a successor program may not be available. For example, food banks can expand

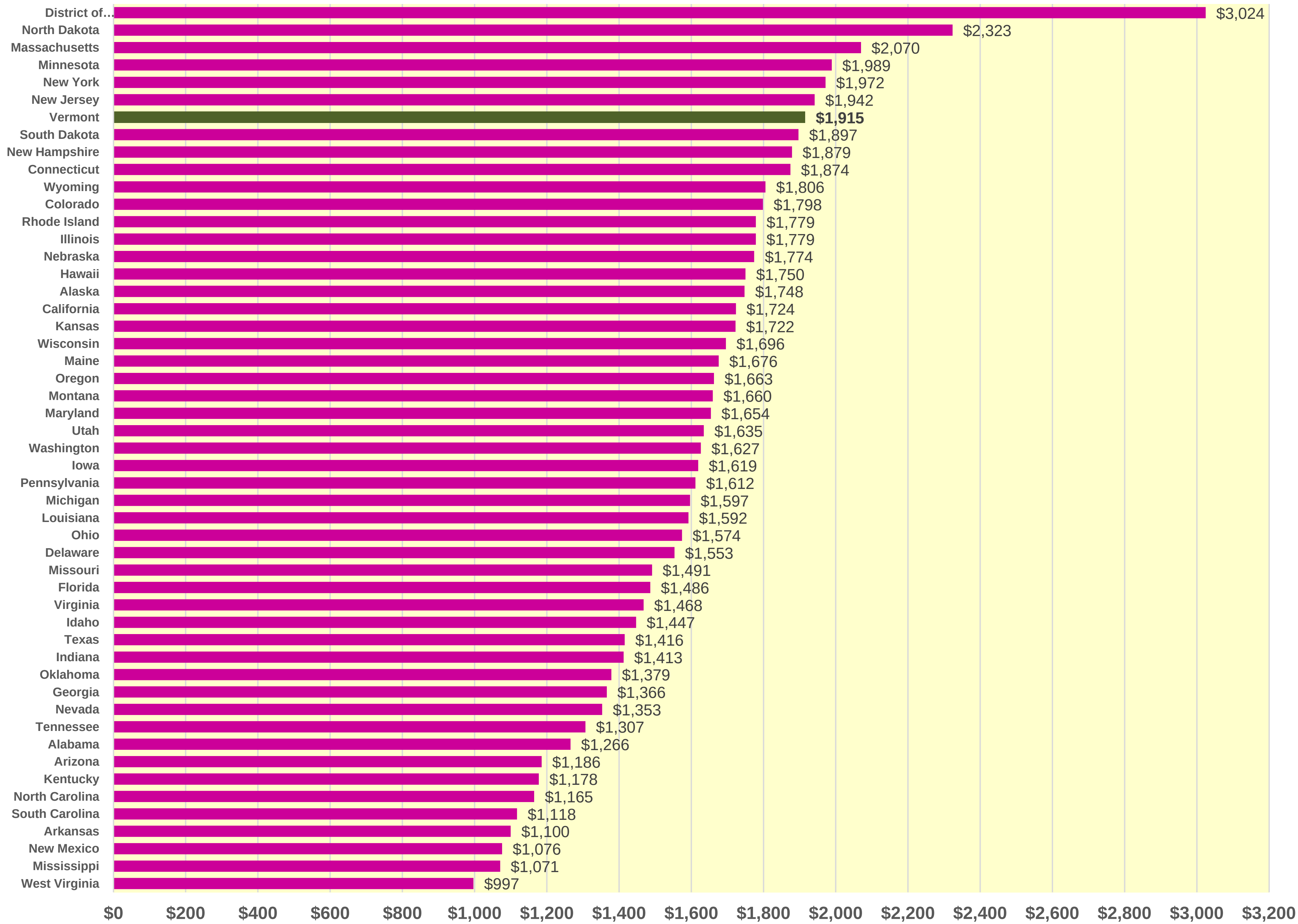
New York x 5 = Vermont: Per Capita CARES Act Funding

Source: U.S. Department of the Treasury



West Virgnia x 2 = Vermont: Per Capita PPP Funding

Source: U.S. Department of the Treasury



stocks and delivery systems with current funding increases, thereby providing surge capacity to handle future potential needs.

The second highest areas of beneficial potential economic impact are investments that encourage and support both current economic activity and future economic development. This includes maximum upgrading and extension of broadband services and funding for safe childcare and K-12 reopening measures. If it was not clear before the pandemic, the importance of reliable high-speed broadband access is obvious now. It has enabled economic activity during the pandemic where present and stunted it where not. It has enabled a wave of second homeowners to work from (and pay taxes in) Vermont and attracted a growing number of permanent residents far in excess of anything the paltry "incentive-to-move" programs could possibly achieve. Although there have been prior allocations of money for this purpose, no stone should be unturned between now and the end of the year in extending and improving this critical infrastructure throughout the State.

Similarly, safe childcare and K-12 public schools allow parents to return to work and have also been an attraction to new residents. Vermont's exemplary performance in limiting COVID community transmission through widespread social compliance allows the possibility of safe public school attendance in a way not possible in states and regions with higher transmission rates. Funding to enable this will produce immediate economic returns as well as educational benefits to students.

The third area of optimal disbursements would target companies and institutions in critical State economic sectors not previously served or substantially underserved that are not at high risk of permanent loss. The sectors that should be considered for substantial additional support include private higher education institutions, non-profits, and arts, entertainment and community service sector firms, including sole proprietors. The State could also help these sectors to transition to digital platforms via on-line marketplaces for Vermont products and services, including galleries for artists and craftsmen, store-fronts for local food products, and musical performances projected to all through the internet - bringing a kind of "virtual tourism" to products and services normally sold to visitors to the State.

Industry sectors experiencing the greatest employment losses are included in Table 1 on page 5. Not every business that has been hurt by the pandemic, however, will survive – with or without public assistance. Some sectors and stressed businesses confronting a protracted period of diminished business activity will disappear or need to be reconstituted at some future time. Spending on such entities will not accomplish the desired objective and deprive others of funds needed for their survival. This presents difficult funding decisions, but pouring massive additional funding into more permanently stressed sectors is unlikely generate desired outcomes.

For workers in sectors beset by longer term losses and firms that do not survive, job training in fields with higher demand will be essential. Funding for free or heavily discounted vocational and college courses in Vermont would benefit displaced and underemployed workers, the Vermont educational institutions they attend and future economic growth. This should be immediately available, with second semester charges paid in December (as is the norm), and large enough to enable many thousands of unemployed and underemployed workers to participate.

In general, programs that indiscriminately disburse funds or do so with little targeting of need are the least effective. The federal payments of $1,200 per person, regardless of negative COVID impact and, for the most part, income, are an example of this. While providing stimulus, they usually have lower local economic multipliers and reduce funds available for businesses and individuals in greatest need. The current $50M ACCD proposal to provide "gift cards" to all Vermonters falls in this category. If there are funds available after funding all of the above more targeted needs and/or unspent funds in December requiring quick use, a better program option would be to provide supplemental retroactive hazard pay to low income essential workers or gift cards to low income residents for limited use in purchasing non-taxable food, medicine and clothing. Either, or both of these, could easily consume $20M-$50M in unused funds on short notice if necessary.

Lastly one of the inquiries requested comment on "austerity budgeting vs. deficit spending." While deficit spending at the federal level is prescriptive in a recession, it is not at the state level. Once rainy day funds and other surpluses are consumed, any revenue shortfall will need to be offset with lower spending, higher taxes, greater borrowing, or some mix of these – all of which have negative economic effects (unless there are spending cuts that represent efficiencies that should have been effected in any event, vast unused borrowing capacity, or comparable unused tax capacity).

Please let me know if you would like further analysis or greater detail regarding any of the above comments and perspectives.

TABLE 1

Vermont Payroll Employment	**Percent Change vs. Year Ago (Not Seasonally Adjusted)**						
Industry Sector	**Jan 2020**	**Feb 2020**	**Mar 2020**	**Apr 2020**	**May 2020**	**Jun 2020**	**Jul 2020**
Total Nonfarm	-0.4	-0.4	-2.6	-22.5	-17.4	-13.5	-11.8
Mining and Logging	0.0	0.0	-12.5	-25.0	0.0	0.0	-11.1
Construction	-7.3	-6.7	-8.1	-56.6	-34.4	-27.0	-25.9
Manufacturing	-1.4	-1.0	-2.0	-26.4	-10.1	-12.2	-12.1
Trade, Transportation, and Utilities	-1.7	-0.9	-2.8	-20.9	-13.1	-8.1	-5.9
Information	0.0	0.0	0.0	-4.8	-7.0	-7.0	-4.7
Financial Activities	-5.7	-2.5	-3.3	-8.3	-8.9	-8.9	-8.7
Professional and Business Services	1.4	1.1	-0.7	-14.7	-9.6	-9.0	-7.2
Education and Health Services	-0.2	-1.0	-4.0	-14.0	-12.5	-6.2	-5.2
Leisure and Hospitality	1.3	0.5	-6.4	-66.5	-59.5	-49.1	-43.7
Other Services	-1.0	-1.0	-2.0	-19.6	-19.4	-11.4	-11.4
Government	2.0	1.9	2.1	-5.5	-7.6	-4.5	-1.2

Source: U.S. Bureau of Labor Statistics, July data are preliminary

U.S. PPP Funding by NAICS Sector

NAICS Sector Description	Loan Count	Net Dollars	% of Amount
Health Care and Social Assistance	522,900	$67,308,168,304	12.91%
Professional, Scientific, and Technical Services	664,941	$66,431,416,001	12.74%
Construction	484,806	$64,697,933,772	12.41%
Manufacturing	234,948	$53,922,171,696	10.34%
Accommodation and Food Services	377,460	$42,226,563,861	8.10%
Retail Trade	463,764	$40,378,607,813	7.74%
Other Services (except Public Administration)	563,154	$31,286,196,747	6.00%
Wholesale Trade	171,553	$27,508,783,153	5.28%
Administrative and Support and Waste Management and Remediation Services	251,285	$26,381,319,807	5.06%
Transportation and Warehousing	215,982	$17,241,704,592	3.31%
Real Estate and Rental and Leasing	256,412	$15,605,067,970	2.99%
Finance and Insurance	175,760	$12,088,513,425	2.32%
Educational Services	85,426	$11,982,020,521	2.30%
Unclassified Establishments	219,582	$9,655,072,807	1.85%
Information	72,057	$9,279,228,782	1.78%
Arts, Entertainment, and Recreation	125,777	$8,089,594,232	1.55%
Agriculture, Forestry, Fishing and Hunting	144,334	$7,994,868,458	1.53%
Mining	22,156	$4,521,098,771	0.87%
Public Administration	13,956	$1,748,125,718	0.34%
Management of Companies and Enterprises	9,137	$1,548,812,402	0.30%
Utilities	8,195	$1,490,681,774	0.29%

Approvals through 07/31/2020